Overtaxing San Francisco's Business

By Ken Perry

In the face of the current economic malaise, with cuts affecting thousands in the Bay Area's private sector, San Francisco's political leaders are confronted with a choice: They can do the right thing for local taxpayers and address the city's fiscal woes by reducing the city's budget, or they can take the easier alternative. Regrettably, they appear headed toward the latter, with few reductions in spending.

Today, the San Francisco Board of Supervisors is considering a proposal to impose new taxes on gross receipts and payroll expenses for real-estate businesses, professional and service firms, contractors and the like, thus freeing it from the politically unpopular decision of cutting city services and jobs. If it does so, the Board places the burden of resolving the deficit squarely on businesses and their employees, shifting financial responsibilities to those already struggling to keep their heads above water. In short, it will force the hand of private employers to make deeper job cuts, thereby exacerbating the city's crisis.

Last year, the Committee on Jobs (a nonprofit group financed by San Francisco businesses) released a report by a professor of economics from San Francisco State University stating that, after five years of unprecedented growth, the city must curtail its spending and prepare for deficits in the budget. The report cited some compelling data on the overall contributions made by the private sector to the City's coffers:

- San Francisco businesses ... small, medium and large combined ... pay 63 percent of all local taxes collected;
- The largest source of local revenues is the property tax collected on commercial and residential real estate;
- Payroll and license fees provided $267 million in 2000.

The report also revealed that, given the current economic conditions, local businesses and employees could not support the additional weight the proposed taxes will add. The average private-sector job in San Francisco generates roughly $1,200 per year in taxes for the City. But in 2001, San Francisco's unemployment rate more than doubled ... from 2.7 to 6.1 percent. Equally alarming, retail sales tax collections have dropped by 10 percent and, following the Sept. 11 tragedy, local hotel room tax revenue is projected to plummet this year by 28 percent.

By comparison, in the past five years, San Francisco's per-capita spending grew by 29 percent ... greater than the combined spending rates for the federal (10 percent) and California state (18 percent) governments. Since 1994, the total number of city employees has increased by 18 percent, to approximately 28,000 municipal workers. On a per-resident basis, San Francisco's payroll is 150 percent greater than that of Los

Angeles, San Diego or Santa Clara, with the average compensation package for a San Francisco municipal worker totaling $74,504. (The average yearly wage for local, nonmunicipal employees is $62,854.)

We need to find ways to stimulate private-sector job growth rather than hinder it, which ironically is what the supervisors would achieve by raising taxes on private sector businesses and their employees.

The Board's recent maneuverings date back to a lawsuit won last year by 59 local companies (including the Hearst Corporation, which owns The Chronicle), who successfully claimed the city had unjustly imposed both a payroll and gross receipts tax on them. The city was forced to reimburse local employers $68 million; from all appearances, the board now seeks to avenge the loss.

Before doing so, however, board members should refer to a study conducted by the San Francisco Chamber of Commerce last spring, which states, ""61 percent of local voters feel the best way for the City to balance its budget is to cut government waste and get rid of unnecessary programs, so we can avoid a tax increase that could cost us jobs."

Increasing the tax burden on businesses and its employees sends the wrong message. Instead, the Board should rein in expenses.

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